

SENATE RECORD VOTE ANALYSIS

105th Congress
1st Session

Vote No. 16

February 26, 1997, 2:28 pm
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BALANCED BUDGET AMENDMENT/Capital & Other Deficit Spending

SUBJECT: Balanced Budget Constitutional Amendment . . . S. J. Res. 1. Toricelli amendment No. 15.

ACTION: AMENDMENT REJECTED, 37-63

SYNOPSIS: As reported, S. J. Res. 1, the Balanced Budget Constitutional Amendment: will require a three-fifths majority vote of both Houses of Congress to deficit spend or to increase the public debt limit; will require the President's annual proposed budget submission to be in balance; and will require a majority of the whole number of each House to approve any bill to increase revenue. Congress will be allowed to waive these requirements for any fiscal year in which a declaration of war is in effect. Congress will enforce and implement this amendment by appropriate legislation. The amendment will take effect in fiscal year 2002 or with the second fiscal year beginning after its ratification, whichever is later. The States will have 7 years to ratify the amendment. For related debate, see 103rd Congress, second session, vote Nos. 47-48, 104th Congress, first session, vote Nos. 62-63 and 65-98, and 104th Congress, second session, vote No. 158.

The Toricelli amendment would amend sections 5 and 7 in order to make it easier to waive the balanced budget requirement for economic reasons and for security reasons and to allow for unlimited deficit spending through "off-budget" capital budgeting, which would never have to balance. First, it would make it much easier to waive this constitutional article for national security purposes. As drafted, a majority of the whole number of each House will have to pass a resolution, which becomes law, that states that the United States is in a military conflict so severe that national security is threatened. Under the Toricelli amendment, such a resolution could be passed by simple majority or even voice votes, and the resolution would only have to say that the United States "faced" a threat to national security--the United States would not have to be involved in a military conflict. Second it would add a new clause to section 5 that would allow Congress, by majority or even voice votes, to pass a resolution, which, upon becoming law, would waive this constitutional article for a fiscal year because Congress thought that the United States was "in a period of economic recession or significant economic hardship." Section 7, as drafted, reads: "Total receipts shall include all receipts of the United States Government except those derived from borrowing. Total outlays shall include all outlays of the United States Government except

(See other side)

YEAS (37)		NAYS (63)			NOT VOTING (0)	
Republicans (0 or 0%)	Democrats (37 or 82%)	Republicans (55 or 100%)	Democrats (8 or 18%)		Republicans (0)	Democrats (0)
Akaka	Johnson	Abraham	Hutchinson	Bryan		
Baucus	Kennedy	Allard	Hutchison	Graham		
Biden	Kerrey	Ashcroft	Inhofe	Harkin		
Bingaman	Kerry	Bennett	Jeffords	Hollings		
Boxer	Kohl	Bond	Kempthorne	Moseley-Braun		
Breaux	Landrieu	Brownback	Kyl	Reid		
Bumpers	Lautenberg	Burns	Lott	Robb		
Byrd	Leahy	Campbell	Lugar	Wyden		
Cleland	Levin	Chafee	Mack			
Conrad	Lieberman	Coats	McCain			
Daschle	Mikulski	Cochran	McConnell			
Dodd	Moynihan	Collins	Murkowski			
Dorgan	Murray	Coverdell	Nickles			
Durbin	Reed	Craig	Roberts			
Feingold	Rockefeller	D'Amato	Roth			
Feinstein	Sarbanes	DeWine	Santorum			
Ford	Toricelli	Domenici	Sessions			
Glenn	Wellstone	Enzi	Shelby			
Inouye		Faircloth	Smith, Bob			
		Frist	Smith, Gordon			
		Gorton	Snowe			
		Gramm	Specter			
		Grams	Stevens			
		Grassley	Thomas			
		Gregg	Thompson			
		Hagel	Thurmond			
		Hatch	Warner			
		Helms				

EXPLANATION OF ABSENCE:

- 1—Official Business
- 2—Necessarily Absent
- 3—Illness
- 4—Other

SYMBOLS:

- AY—Announced Yea
- AN—Announced Nay
- PY—Paired Yea
- PN—Paired Nay

for those for repayment of debt principle." The Toricelli amendment would strike section 7 and insert the following: "section 7. Total receipts shall exclude those derived from net borrowing and the disposition of major public physical capital assets. Total outlays shall include all outlays of the United States Government except those for repayment of debt principal and those dedicated to a capital budget. The capital budget shall include only investments in major public physical capital that provides long-term economic benefits."

Those favoring the amendment contended:

Argument 1:

We have supported passing a balanced budget amendment in prior years, and we still believe it is necessary. Some of us have even reluctantly supported language similar to the language of the pending constitutional amendment. We understand fully the danger that is presented to the future of our republic by the continued accumulation of debt. We commend Members of both parties who have fought long and hard for the adoption of a constitutional amendment. Statutory solutions have been tried, and they have failed because the structural problems that drive Members, and Presidents, to deficit spend have not been addressed. Some Senators contend that the debt was accumulated because Republican Presidents would not tax the American people enough, and other Senators contend that it was accumulated because Democratic Congresses spent too much. The blame is shared; the failure is bipartisan, and the solution should be bipartisan.

That fact does not mean that the solution before us is the right solution. We believe that this balanced budget proposal has three major flaws. First, the amendment's waiver for national security purposes is too narrow. The Dodd amendment, which the Senate rejected earlier (see vote No. 10), would have expanded the waiver. We found the arguments in favor of the Dodd amendment to be compelling, and have thus included its language in the Toricelli amendment. Second, this proposed constitutional amendment sets too high a standard for waiving it during recessions or times of significant economic hardship. Again, the Senate has already considered this issue. The Durbin amendment (see vote No. 7) would have allowed the balanced budget requirement to be waived by simple majority votes during recessions or economic emergencies. We favored that amendment, and have therefore included its language (with a slight modification) in this amendment as well. The modification would be to allow the waiver of this constitutional amendment if Congress and the President passed a law saying that they thought the country was experiencing "significant economic hardship" rather than "a serious economic emergency" as proposed by the Durbin amendment.

The third change proposed by the Toricelli amendment would be to create a separate, off-budget, capital budget. At present, literally every individual, corporation, and government except the Federal Government borrows money to make large capital purchases. Individuals buy cars and homes on credit; corporations make factory and machine purchases on credit; governments build waterworks, roadway, and other infrastructure projects on credit. All of this borrowing, or "deficit spending," is appropriate. The value of capital projects extends over several years so it is appropriate to pay for them over their useful lives. It is actually a great accounting distortion to pay for a project in the year it is started if its useful life is going to extend over several decades. However, that is exactly the accounting procedure used by the Federal Government now, and that is exactly the accounting procedure it will use under this proposed balanced budget amendment.

Because the Federal Government currently spends much more than it collects, taxes will have to be raised and spending will have to be cut in order to bring the budget into balance. With spending reduced, pressure to cut funding for capital projects will be extreme. People will not be willing to let the operating budget be cut because they receive the benefits from that budget directly, immediately, and in full. For instance, financial aid to school districts will not be easily cut. However, people will be willing to cut capital funding. For example, large military items such as aircraft carriers cost billions of dollars upfront, but the protection that they provide Americans is not a directly measurable benefit for any individual, and the protection they offer is over decades.

As we add up the numbers, in 1960 25 percent of the Federal budget was dedicated to long-term capital investments. Today, only 7 percent is. If the balanced budget amendment is not passed with an exception for capital expenses, that number will drop even farther. Our infrastructure is already in disrepair; if we let it get much worse we will lose our ability to compete economically with the rest of the world. We urge our colleagues not to let that happen. We urge them to support the Toricelli amendment.

Argument 2:

We oppose passing a constitutional amendment to balance the budget. The deficit skyrocketed under Presidents Reagan and Bush because they cut taxes and spent too much on defense. Now that we have a President willing to make difficult budget decisions the situation is improving. Still, we recognize that the Toricelli amendment would make this proposed constitutional amendment more reasonable in its demands, so on that basis we will vote for its adoption.

Those opposing the amendment contended:

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The Toricelli amendment should be rejected for several reasons. First, it would serve no useful purpose because the United States has no need for a capital budget. Second, having a capital budget would permit annual deficits for capital spending that were so large that they would negate the value of having a balanced budget amendment. Third, having off-budget capital spending would encourage abuse of the definition of "capital." Finally, the amendment would inappropriately set budget priorities in the Constitution. Those priorities should be set by Congress in statutes.

The United States does not need a capital budget because its capital spending is such a small percentage of its budget that it can easily pay for it on a pay-as-you-go basis. Individuals, and State and local governments, borrow because they make purchases that are so large compared to their annual income that it is difficult or impossible to pay for them in one year. The most obvious example, of course, is the purchase of a home, which is typically more than the annual income of an individual. For the Federal Government, though, capital expenditures are currently at 7 percent of the budget (to use the number given by our colleagues; what exactly constitutes a capital expenditure is extremely subjective, so varying percentages can be given). Within that 7 percent, the single largest item is a \$7 billion nuclear aircraft carrier. Clearly, with a \$1.7 trillion budget, no capital project is so large that deficit financing is the only means of purchasing it. The largest continuing capital project of the United States, the National Highway system, has always been operated on a pay-as-you-go basis by collecting a gas tax. This method of financing has reduced the cost of the highway system by more than \$750 billion, which is the estimated amount of interest payments that would have been paid if deficit financing had been used.

Some Senators have expressed alarm over the fact that the percentage share of the budget that is spent on capital projects has declined. Two points need to be made in response. First, our colleagues erroneously assume that capital spending's declining share of total government spending is the same as a real-term percentage reduction in capital spending. This assumption would only be true if the budget had remained constant. It has not--Federal spending has grown in real terms, and that growth has been driven by uncontrolled growth in entitlement spending. Overall, non-entitlement spending has held constant except for defense spending. Under President Clinton especially defense capital spending has been cut. The second point that needs to be made is that we have not run deficits in 58 out of the last 66 years because capital spending was considered in the budget. Spending on social programs, particularly entitlement programs, caused those deficits.

Many supporters of the Toricelli amendment also are unduly impressed by the fact that some of the 44 States that have balanced budget requirements have separate capital budgets. They then make a facile analogy between State governments and the Federal Government, and insist that the States' experience shows both the necessity for, and the workability of, a Federal capital budget. For some reason, our colleagues profess not to understand the very obvious differences between the Federal Government and State governments. First, States cannot print money. Unlike the Federal Government, their borrowing is constrained by the credit market's assessment of their capacity to repay. Borrowing is done on specific terms with specific repayment schedules and with specific proof that repayment will be made. Further, in nearly every case the total amount that a State may borrow is limited by its Constitution, and usually any new borrowing must be approved by referendum. The Federal Government does not operate under any of these constraints, nor will it under the Toricelli amendment. It does not have a credit rating--it borrows without having terms set. Of course, if the debt gets high enough, a point is going to be reached that willing buyers will no longer be found for Treasury bonds, and at that point the Federal Government will start printing money or go into default. Either way, worldwide economic chaos will result. The dynamics, and dangers, of Federal debt and State debt are thus totally different. The equally obvious point that our colleagues seem unable to grasp is that States do not have relatively constant capital expenditures. A project that would take a fraction of a percent of the Federal budget in a year could increase a State's budget tremendously. The Federal Government can pay for a \$7 billion aircraft carrier in a year; a State, if it decided to take on a \$7 billion project, would find it much more difficult to find that large of an offset in a single year.

Though the Toricelli amendment would have no useful impact, it would clearly have negative consequences. We urge our colleagues to consider exactly how this proposal would work in practice. Under this amendment, all spending that Congress decided to call capital spending could be placed off-budget by a simple majority vote. Every penny of that capital budget could then be borrowed; in fact, our colleagues emphatically state that they want to create the budget precisely to permit deficit spending. If half the budget were declared capital spending, then half the budget could be borrowed without ever saying when the money would be paid back. Deficits much larger than those we have currently could be run indefinitely, while at the same time Members could claim that they had balanced the budget. The United States would continue speeding into bankruptcy.

Our next objection to the Toricelli amendment is that it would allow increased non-capital spending. Under the balanced budget amendment, if receipts were \$1.7 trillion in 2002, outlays could not exceed \$1.7 trillion. If capital expenses were \$10 billion, or \$100 billion, or \$200 billion, they would be part of that \$1.7 trillion in spending. Under the Toricelli amendment, though, \$10 billion, \$100 billion, or more of that spending could be called capital spending and be exempt from outlay limit. Thus, having a \$100 billion capital budget would let Congress increase other spending by \$100 billion and at the same time claim to have balanced the budget. Additionally, when Senators saw that a capital budget existed, the temptation would be to call anything that Congress or the President wanted to spend extra money on a capital expenditure. President Clinton recently created a Capital Budget Commission to study whether the Federal Government should implement a capital budgeting procedure. One of the primary duties of that commission will

be to come up with a definition including "use of capital for the Federal Government itself or the economy at large; ownership by the Federal Government or some other entity; defense and nondefense capital; physical capital and intangible or human capital; distinctions among investments in and for current, future, and retired workers; capital to increase productivity and capital to enhance the quality of life; and existing definitions of capital for budgeting." Gee, that covers everything. The Toricelli amendment would give Congress and the President the ability to define everything as being off-budget. As the Washington Post, a liberal newspaper, recently put it: "The concept of a capital budget, applied to the Federal Government, is pure fakery. . . . a diligent budget director could bring the deficit out at any number he chose."

The Toricelli amendment would make this constitutional amendment absolutely worthless. Its sponsor has voted for the Balanced Budget Constitutional Amendment as a House Member, and he campaigned just a few months ago on the solemn promise that he would support it again if he were elected to the Senate. Now that he has been elected, though, he is the only Senator who has not said how he is going to vote on passage, and President Clinton has been pressuring him to vote against it. One more vote in its favor is needed for it to pass--the fate of the Balanced Budget Amendment will be determined by Senator Toricelli. Our hope is that his offering this amendment is not an indication that he intends to switch his vote.

The General Accounting Office, the Congressional Budget Office, and the Office of Management and Budget have all argued against having a Federal capital budget. For budget experts, the verdict is unanimous. We urge our colleagues to second this verdict by rejecting the Toricelli amendment.